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“The most supportive environment in the world”?: Tracing the development of an institutional 'ecosystem' for social enterprise.

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Abstract

While numerous accounts of policy frameworks associated with country-level support for social enterprise activity exist, explanations for *when*, *why* and *how* policy interventions in support of social enterprise have been adopted have been, to date, much more thin on the ground. This paper aims to contribute to addressing this perceived gap by presenting the case of Scotland, recently hailed by First Minister Alex Salmond as "the most supportive environment in the world for social enterprise." Historical Institutionalism is used to explain how such a 'supportive environment' might have come about and, looking at, in turn, *when*, *why* and *how* the conditions for social enterprise in Scotland have developed, we attempt to contribute to the ongoing international debate concerning the importance of the policy environment to fostering the conditions for social enterprise activity not only to emerge, but to thrive.

Key words

social enterprise, Scotland, Historical Institutionalism, political devolution, UK

Introduction

The UK has been widely portrayed as paving the way in the development of policies to create a thriving environment for social enterprise (Nicholls 2010). Countries as diverse as Australia, South Korea and Sierra Leone are borrowing aspects of this UK model with seemingly little consideration of the difficulties in policy transfer to countries with very different cultures and political systems. However, due in large part to the introduction of similar national legislations on social enterprise (for instance in Italy, the UK, France, Germany, Portugal, Poland, Greece, Slovenia, Croatia) and the launch of the Social Business Initiative by the EU Commission, there has been a gradual convergence upon a set of common characteristics that ought to be shared by all social enterprises, at least across Europe. While numerous accounts of policy frameworks associated with country-level support for social enterprise activity exist (Haugh 2012), the same cannot be said of explanations for *when*, *why* and *how* policy interventions in support of social enterprise have been adopted. This paper aims to explore how the nature of social enterprise is shaped by distinct historical, cultural and political processes and presents the case of Scotland, recently described by First Minister of Scotland, Alex Salmond MSP as “the most supportive environment in the world for social enterprise” (Ainsworth 2012).

Criticism of the Westminster model of social enterprise policy from countries and regions *within* the UK and, in particular, the stretching of the concept of social enterprise for political ends has certainly influenced the development of a ‘voluntary code of practice’ by members of the social enterprise community in Scotland. This states that social enterprises: must have social and/or environmental objectives; must be trading businesses aspiring to financial independence; must have an ‘asset lock’ on both trading surplus and residual assets; cannot be the subsidiary of a public sector body;

and, need to be driven by values – both in their mission and business practices (SENSCOT 2013).

Concordant with Social Origins Theory (Salamon et al. 2000), which recognises the explicit complexities of the Third Sector's 'embeddedness' in broader social, political, and economic processes (Seibel 1990), a historical perspective is taken followed by an analysis of more contemporary policy developments to explain divergences from England since Scottish political devolution in 1999. In particular, Historical Institutionalism (Steinmo et al. 1992) is drawn upon to explain how such a 'supportive environment' might have come about and to critically examine the claim of favourable conditions for social enterprise in Scotland. By considering such issues – looking at, in turn, *when*, *why* and *how* the conditions for social enterprise in Scotland have emerged – we attempt to contribute to the ongoing international debate concerning the importance of the policy environment to fostering the conditions for social enterprise activity not only to emerge, but to thrive.

Historical Institutionalism as an approach

Historical Institutionalism focuses upon the role of institutions in sequences of social, political and economic behaviour and change across time, and stems from two major intellectual developments in the 1970s and 1980s (Peters et al. 2005). Firstly, the renewed interest in the state as an analytical concept (Evans et al. 1985) following the rapid expansion of the public sector in western democracies after the second world war; and secondly, the analytical significance ascribed to institutional arrangements, both formal and informal, in western democracies for explaining behaviours and policy choices (Hall 1986; March and Olsen 1984).

The advent of Historical Institutionalism has shifted the treatment of institutions from those governing formal rules of behaviour (e.g. the state, the law) to wider classification, encompassing both formal administrative units and arrangements, and informal rules and legacies associated with particular institutions or institutional arrangements within the state, or between the state and society (Peters et al. 2005). An implication of this change in approach – from 'old institutionalism' to 'new institutionalism'– is that agency is able to be ascribed to all kinds of social groups and behaviours, not just elites and, as such, is therefore an appropriate framework to approach the development of social enterprise in Scotland.

In common with other Historical Institutionalism case studies, much historical detail is deliberately sacrificed in this paper in order to identify general causal patterns (Thelen 1999) and the development of broad explanations concerning *why* and *how* social enterprise has emerged within a given cultural, historical and political context. This is consistent with the theoretical approach underpinning the influential international comparative work of the Johns Hopkins Comparative Nonprofit Sector Project investigating the 'social origins' of civil society (Salamon et al. 2000) and partly in response to a general call from the likes of Mason et al. (2007) for approaches from new institutionalism to be brought to social enterprise research.

The 'when': the roots of social enterprise in Scotland

Spear (2001) suggested that the emergence of social enterprise in the UK cannot be properly examined without an historical perspective explaining how the whole Third Sector developed from the times of the 'dark satanic mills' and this is especially true of Scotland. Furthermore, gaining a more rounded perspective requires a fairly nuanced appreciation of the culture and history of Scotland and its relationship within the UK, particularly since the establishment of the Scottish Parliament in 1999.

Since Aiken (2006) described the social enterprise field in the UK as 'lumpy' it has, arguably, become 'lumpier' due to policy divergences between Scotland and England (and, indeed, between the other countries of the UK) following political devolution. In fact, it is increasingly inaccurate to talk of 'UK policy' or the 'UK position' when referring to the Third Sector or, indeed, many other areas of socio-political discourse.

But just when the seeds of the social enterprise movement in Scotland were laid down is debatable. Mayo et al. (2001) provide a brief examination of several periods often overlooked in historical accounts of social enterprise growth in the UK, ranging from the earliest craft guilds preceding the Industrial Revolution to the work of green philosopher Ivan Illich and labour historian EP Thompson, chroniclers of the culture of mutual aid and popular enterprise. Additionally noted is that social economic historians Karl Polanyi and RH Tawney identify that the concept of socially 'just enterprise' represented by those earliest craft guilds "pre-dated the modern 'value free' and amoral nineteenth century understanding of the free market by over eight hundred years." (Mayo et al. 2001, p. 2) Two periods, however, that are recognised as especially important in the history of Scotland and of the Scottish social enterprise movement, are the Scottish Enlightenment, and the Industrial Revolution. The former is a period for which Scotland is recognised, most notably in the fields of moral philosophy and political economy, as a singularly important centre within the celebrated eighteenth-century European revival of learning (Allan 1993) and was both shaped, and characterised by, a Scottish tradition for humanist values. This tradition undoubtedly helped inform the forerunners of modern social enterprise structures in the UK (Pearce

2003) such as workers' co-operatives, which can trace their beginnings to the Industrial Revolution, in which Scotland played a critical early role, particularly through the work of early industrialists such as Robert Owen.

Following the Act of Union with England in 1707 and the birth and rapid expansion of the new British Empire, Scotland's place in the world was radically altered. Arguably the poorest country in Western Europe at the start of the 18th Century (Herman 2003), Scotland was able to turn its attentions to the wider world without opposition from its much larger and more powerful neighbour. With intellectual benefits emerging from Europe's first public education system since classical times, the Scottish Enlightenment was an unprecedented period of intellectual, cultural, scientific and technological development in which modern Scottish ideas were exported throughout the world (Buchan 2007). The enlightenment ideas of scientific empiricism and practicality coupled with a unique brand of humanism, exemplified in the work of David Hume, whose chief attributes were held to be improvement, virtue and practical benefit for both individual and society (Herman 2003). These ideas were deemed so remarkable that Voltaire was reputed to have exclaimed that "we look to Scotland for all our ideas of civilization" (Young 2009). Adam Smith, a Professor at the University of Glasgow, published his ethical and philosophical treatise *The Theory of Moral Sentiments* in 1759 and his *An Inquiry into the Nature and Causes of the Wealth of Nations* in 1776, the same year as Hume died, advocating the division of labour in the production process and shaping modern political economic thinking.

As the Industrial Revolution moved on apace from its birthplace in northern England, Scotland began to shift from a largely rural economy with small scale craft-working to more specialised and heavier industries. This was powered first by water, then by steam but also by Scotland's expertise in education, commerce and banking. A vital stepping stone to markets such as the New World, developments in agricultural technologies, and, most importantly, an abundance of raw materials, all provided the conditions for industry, and especially heavy engineering, to flourish in the central belt of Scotland. An influx of mass manufacturing methods, applying new technology largely imported from England, and the growth of the 'factory system,' particularly in textile manufacture, encouraged labour and social movements to flourish as defensive reactions to the harsh conditions (Borzaga and Galera 2012). The world's first documented consumer co-operative (BBC 2011) was founded in 1761 when local craftsmen formed the Fenwick Weavers' Society in a barely furnished cottage in Fenwick, East Ayrshire. Pioneering co-operative storekeepers were found in Scotland certainly from 1769 onwards (Harrison 1969) some 75 years before the Rochdale Pioneers –generally considered the immediate forerunners of what is now the 'social enterprise movement' (Pearce 2003) – set down their famous principles in 1844 and certainly well predates the 'geological upsurge' (Defourny et al. 2010) of the co-operative movement across many parts of Europe. Several Scottish co-operatives from that period, such as the Galashiels and Hawick Co-operative Societies founded in 1839, trade today as part of The Co-operative Wholesale Society, still the world's largest consumer co-op (Cowe and Williams 2000).

Marking this period was the work of the most important figure Scotland can lay claim to in the history of the social enterprise movement: textile manufacturer Robert Owen, the utopian socialist who owned and ran the mills at New Lanark as a model industrial community. Owen was a pioneer in improving living and working conditions for workers, but it was his opening of a store where goods could be bought little above wholesale costs where savings from the bulk purchases were passed on to the workers that earned him the sobriquet of father of the co-operative movement (Cowe and

Williams 2000). The term ‘social entrepreneur’ was apparently coined to describe Owen and those who subsequently adopted his management practices (Banks 1972).

Historical Institutionalism does not accept that history necessarily develops in a straightforward, linear fashion. The most basic concept relevant to Historical Institutionalism is path dependence, which expresses the idea that outcomes at a ‘critical juncture’ (Collier and Collier 1991) trigger feedback mechanisms that reinforce the occurrence of a particular pattern into the future (Thelen 1999). Culture, it is argued, helps to define such focal points (Bates et al. 1998). The Scots’ culture, shaped by a particular brand of humanism, the near universal access to education unique in its time, allowed the ideas of Scottish philosophers such as Hume and Smith to flourish across the world during the Scottish Enlightenment and shape modern political and economic thinking. Furthermore, these traditions forged in reaction to the social upheaval caused by the Industrial Revolution through the early social enterprise movement, encouraged institutions such as co-operatives, exemplified in the early work by Owen, to emerge.

The curious case of ICOMs and Worker Co-ops

More recent ancestors of modern social enterprises in the UK, such as the Industrial Common Ownership Movement (ICOM) in the 1950s and Worker Co-operatives in the 1970s and 1980s are often overlooked in historical accounts. The specialist chemical company Scott Bader in Wellingborough, Northamptonshire is ICOM's best known early example which was gifted to its employees in 1951 by its founder, Ernest Bader. The state encouraged these structures through funding in the form of the Industrial Common Ownership Act 1976 which provided £100,000 seed funding to the ICOM and £50,000 to the Scottish Co-operative Development Committee (SCDC). The Act also set up a £250,000 rotating loan fund managed by Industrial Common Ownership Finance Ltd. (ICOF). The Co-operative Development Agency Act 1978 enabled grants to the Co-operative Development Agency. Eventually, in 2001, ICOM merged with the Co-operative Union to form Co-operatives UK, thus merging the Worker Co-operative and Consumer Co-operative sectors. Around 60 local Co-operative Development Agencies (CDAs), supported by local authorities, provided start-up assistance, resulting in a peak of some 1,400 Workers' Co-operatives in the late 1980s (Spear 2006). However a key difficulty that Worker Co-ops faced was the lack of support from both the wider Labour Movement and, curiously, of many in the Co-operative Party; a 'sister party' to Labour for all but the first ten years of its existence. The main objection to such structures has typically been ideological: in the Marxist/Socialist doctrine, the only (conceivable) alternative to public provision being privatisation. Co-ops and other Third Sector structures which eschew neat classification are thus looked upon with suspicion as somehow 'paving the way' to privatisation. Defourny and Develtere (1999) describe the basic political issue arising from the Third Sector in their context of Marxist analysis, identifying that associationist socialism played a fundamental role in the utopian ideas of Owen, King, Fourier, Saint-Simon and Proudhon. Until 1870, they claim, theorists of associationist socialism were, above all, promoters of producer co-operatives and their views dominated the discourse of international workers movements to the extent that the terms 'social economy' and 'socialism' were almost rendered synonymous with each other (Defourny and Develtere 1999). This did not last, however: despite Marx's sympathies with the co-operative concept, it was his collectivist theories that eventually won through (Cummins 1980). Thus, a growing proportion of the workers' movement denied the social economy a central role in the process of societal transformation. At best, it remained "as it did for Jean Jaurès, a way to improve the lot of the poorest and educate them" and as "a powerful tool for pooling resources and organising propaganda for the purposes of political combat" (Defourny and Develtere 1999 p. 6).

The work of Antonio Gramsci attempts to rectify this rather negative view of the Third Sector in Marxist doctrine. Gramsci locates civil society in the political superstructure rather than the socio-economic base of the state and, rather than posing it as a problem, views this as the site for problem-solving (Edwards 2009). Gramsci's views are echoed somewhat by William Beveridge, the architect of the UK welfare state and it is argued elsewhere (Roy et al. 2013) that, from their position within the Third Sector, social enterprises can often work at the interface between communities and the state as specialist providers, innovators and monitors of the sort Beveridge envisaged (Oppenheimer and Deakin 2011), providing a pluralist perspective and moderating the centralist and bureaucratic tendencies of statist social democracy (Maxwell 2007). But, despite the work of Gramsci, and that of Beveridge closer to home, most Third Sector concepts have continued to maintain a subordinate role in political analysis. Because of its role in shaping political thinking in Scotland and certainly the development of the Labour Party in early 20th Century[1], the development of Marxist philosophy can certainly be viewed as one of these 'critical junctures' (Collier and Collier 1991) that have influenced a specific trajectory of political and institutional development.

It is worth noting, and of interest to Historical Institutionalists, who are as often concerned with why certain paths were *not* followed, that civil society concepts would likely have played a much greater role in what followed had the collectivist anarchist philosopher Mikhail Bakunin won the Communist Party leadership contest against Karl Marx in the First International at the Hague in 1872 (Rothschild 2009). Bakunin had

[1] James Keir Hardie, a Scottish socialist and labour leader was elected as the first member of the Independent Labour Party to the UK Parliament in 1892, and became the UK Labour Party's first leader in 1906.

long argued for a completely decentralized system in which workers would co-own and self-manage their own workplaces, forming federations when needed: the complete opposite, in other words, of the centralised state system.

The 'why': the socio-political culture of a "dis-united Kingdom"?

In the United Kingdom, like other states with multiple 'nations', such as Canada or Spain, we observe a complex political order with multiple sites of sovereignty, and asymmetrical constitutional arrangements (Keating 2001). Scotland shares a great many aspects of culture and history with their more populous and powerful neighbour, but dissatisfaction with power arrangements that were not seen to be representative of the cultural and political differences of Scots, led to calls for change. Constitutional changes to the UK attained at the end of the 20th century and the establishment of the Scottish Parliament meant that a number of policy areas, including those relating to the Third Sector, were devolved from London to Edinburgh (Alcock 2012). Mounting policy divergence between Scotland and England in recent years has meant that, arguably, it is increasingly inaccurate to talk of a 'UK position' in relation to social enterprise policy.

Political Behaviour and the notion of 'Democratic Deficit'

The political behaviour of Scotland and the north of England started to diverge considerably from the south in the 1950s (Curtice 2002) coinciding with a burgeoning of social democratic ideals across Western Europe at that time. The people of Scotland are naturally more inclined towards social democratic values than many parts of England, particularly the populous and wealthy areas of London and the south-east. (McCrone and Keating 2007) This served, in Scotland at least, to enforce a continuation of a perceived 'paradoxical' or ambivalent relationship between the Third Sector and social democracy: expansion of the state in the mid 20th Century as a solution to society's ills acted to 'usurp' the role charities have filled since at least the Industrial Revolution (Maxwell 2007).

The 1950s and 1960s saw a marked decline in parliamentary representation of the Conservative Party in Scotland. This, coupled with rapid de-industrialisation and resultant economic, social and political dislocation that continued throughout the 1970s and 80s, emphasised the perception of 'democratic deficit': at a UK level, Scottish political representation was regarded as marginalised, with a distinct lack of Scottish Conservative MPs and a broad perception of anti-Scots bias, particularly during the Thatcher years (Keating 1996). The combination of neo-liberalism and social authoritarianism embraced by both Thatcher and Major were deeply unpopular in Scotland. They were viewed by many Scots as violating not just the welfare tradition of the 'post-war settlement' but also deeper conceptions of community and solidarity, long thought of as integral components of Scots culture (McCrone and Keating 2007).

The growth of community businesses

Community businesses, although an idea that originated in rural Ireland to stem the migration of mainly young people to towns, cities and elsewhere, emerged from the political turmoil of the late 1970s. Multi-functional community co-operatives were established to create jobs that could be filled by local people and provide services to the community. The Highlands and Islands Development Board, founded in 1965 to regenerate the socio-economic aspects of the isolated and sparsely populated areas of the highlands of Scotland in the north and island communities predominantly to the west of the country, were attracted to the Irish model and imported the concept into small rural communities. Community co-operatives were often established with seed-core grant funding matched with share capital collected from local residents allowing small businesses such as heritage centres, salmon hatcheries, visitor cafes, and holiday bunk houses to become established. The idea spread thereafter to the lowland urban areas and some early work just outside Glasgow led to the creation of a community business model based upon local communities with open membership to residents living in the community and voting on a management committee of local people (Pearce 1993). These community businesses flourished in the early 1980s as local authority services faced rapid cuts and unemployment reached record levels. In Scotland, the Scottish Office was able to prioritise Urban Programme funding to support the development of community business and each area in Scotland was provided with a community business (or enterprise) support unit. Some of these original community businesses are still trading and doing particularly well. However in the early 1990s, following several widely publicised business failures in the community business sector and one or two less than flattering evaluations, the idea of 'community business' became unpopular with local authorities and the Government. Around this time the term 'community enterprise' became more widely used (Pearce 1993, 2003) and these community enterprises gradually formed part of what are now understood to be social enterprises (Kay 2003). In England, Urban Programme funding was not utilised to develop community businesses to the same extent, and thus their growth was less impressive than in Scotland.

Policy Divergence from England

Labour's UK election victory in 1997 brought the promise, fulfilled through a referendum, of the establishment of a devolved Scottish Parliament with tax varying powers in 1999. For the first time since the Union of Scotland and England in 1707, Scotland had its own distinct political institution, in which who held power was not determined by the outcome of UK elections , but rather by the results of elections in Scotland only (Curtice 2006). Consequently, most areas of policy (except, crucially, welfare) that touch upon the Third Sector, including support for social enterprise, were devolved to the new Scottish Executive. Up until this point, the policy choices available were heavily constrained by prior patterns of historical and institutional development shaped largely by the UK Government in London. In theory at least, the new Scottish Parliament was not constrained by the same 'path dependency' and were able to craft a new approach to a whole range of policy areas.

Although this period described as 'hyperactive mainstreaming' of Third Sector policy in the UK (Kendall 2009) with more rapid and extensive policy development than any time since the early 20th century, the concept of social enterprise did not immediately permeate the political mainstream to any significant extent, despite a dedicated Social Enterprise Unit established within the UK Department of Trade and Industry in 2001. Jones and Keogh (2006) remind us that shortly after he was first elected as Prime Minister, Tony Blair declared his personal support for social entrepreneurs. He then went on to include policemen and schoolteachers, as well as community volunteers and activists, in his discussion about who social entrepreneurs were. This is symptomatic of the ambiguity that, arguably, still continues to dominate the discourse around social enterprise in the UK (Teasdale 2011).

Furthermore, most commentators tend to write about Third Sector politics and policies developed by the UK Government as continuing to extend across the UK, or at least establishing a norm from which the other countries may, or may not, depart. This, as Alcock (2012) points out, is simply not true and, arguably betrays a rather narrow and simplistic view of political devolution. Devolution has allowed, in most matters, the devolved administrations to follow London when it suits them, to ignore them when it does not, and to often pursue a more innovative pathway, unencumbered by problems of scale and complex layers of delivery that can inhibit the much larger and more populous nation of England.

But until 2007, when the Governments in both London and Edinburgh were of a similar Labour hue (albeit Labour were in coalition with the Liberal Democrat Party across two Scottish Parliaments), the policy differences were fairly minor, albeit with one or two notable exceptions, such as up front tuition fees for students and free personal care for the elderly (Mitchell and Jeffrey 2009). This was despite the relative hostility of Scots toward Blair's 'New' Labour's neo-liberal leanings and market-oriented reforms (Hassan and Shaw 2012). Despite an apparent increase in political support and understanding within politicians' minds for the development and strengthening of the social economy in both England and Scotland, in the period to 2007 the Scottish Executive took a more traditional (or 'old') Labour stance, and support for the social economy was more muted than even England. This highlights one of the issues surrounding the development of the social economy: that it may cause a shift of resources away from the public sector into the Third Sector. This is not universally welcomed by those politicians and bureaucrats – traditionally on the left – who support a strong, command economy typified by the public sector (Kay, 2003).

A consequence is the lack of 'mixed economy' of provision and thus fewer opportunities for private or Third Sector providers to partner with the state or providers of publicly-funded services in their own right in Scotland. In other words, the 'social welfare market' which (Aiken 2006) identified as being a characteristic of the UK landscape, is manifestly less developed in Scotland than in England. This is most noticeable in

Scotland's largest city, Glasgow – a Labour stronghold – where a sizeable portion of local services, even when not delivered directly, are delivered by ALEOs (Arms' Length External Organisations) which are, to all intents and purposes, subsidiaries of the local authority and not social enterprises.

The election of the Scottish National Party (SNP) to power in elections to the Scottish Parliament, first as a minority administration in 2007, then as a majority Government in 2011, has given them a mandate to seek a referendum for Scottish independence, scheduled for September 2014. Although a dedicated strategy for supporting social enterprise was introduced in the throes of the last Labour-led Scottish Executive in 2007 (Scottish Executive 2007) support for the Third Sector is more explicit from the new SNP-led Scottish Government[2]. Their Enterprising Third Sector Action Plan 2008-2011 (Scottish Government 2008a) was designed to promote an enterprising and thriving Third Sector in Scotland with some £93million for the sector committed over the lifetime of the strategy.

From relatively little policy divergence in the first decade or so of the Scottish Parliament, since the Cameron led Conservative/Liberal coalition came to power in Westminster in 2010 divergence has become quickly marked. Cameron embarked upon a further dismantling of the public sector in the name of austerity cutbacks. His *Big Society* initiative was (at least initially) intended as an endorsement of positive and proactive roles that voluntary action and social enterprise could play in promoting improved social inclusion and 'fixing Britain's broken society,' (Alcock 2010) presumably because social enterprises possess characteristics that governments and corporations seek – credibility, expertise and public support (Paton 2003).

[2] When the Scottish Nationalist Party came to power in 2007 the Scottish Executive was renamed the Scottish Government

However the notion of the Big Society never gained a foothold in Scotland: it has been dismissed as having no impact (as most of the policy areas it touches upon are devolved) and of little relevance to Scots (Third Force News 2012). Instead, the Scottish Government has focused energies upon staving off the worst impacts of the cutbacks.

The 'how': policy instruments and the 'ecosystem' for support

Support from the Scottish Government for the concept of the 'enterprising Third Sector' has manifested in various policy instruments designed to encourage this, bolstered by a fascinating array of different 'layers' of support institutions built up over many years. Establishing the exact scale of the social enterprise movement in Scotland has proven to be problematical, as we shall see, but a wide variety of social enterprises and support bodies all contribute to what could be described as a sustainable 'ecosystem' of support for social enterprises attracting attention from around the world.

Ready for Business?

A new £1.5m Ready for Business programme launched in December 2011 by the Scottish Government sought to: improve the profile of Third Sector suppliers with the 'public sector buying community' and thereby open markets; strengthen understanding and application of Community Benefits in Procurement; and encourage routine use of co-production in the design of public services and development of Public-Social Partnerships. However, apart from very large 'national scale' exercises, the majority of public sector procurement is undertaken at local government level, over which the Scottish Government has only limited control and influence. Local Authorities are much more autonomous in terms of how they allocate expenditure to local priorities since the SNP came to power (under what was known as the Concordat Agreement). Despite the best intentions of the Scottish Government to open up markets to the Third Sector, in practice they have limited control in this area, the consequence being 'patchy' results geographically. Thus this means there is a lack of a 'mixed economy' of providers in many areas, notably in the delivery of health services. However, the introduction of social enterprise into English healthcare is perceived by many as simply a 'smokescreen' for allowing large private providers into the market (Roy et al. 2013). Indeed, the former UK Secretary of State for Health faced criticism (Hampson 2010b) from elements of the social enterprise movement in London for adopting too broad or 'elastic' notion of social enterprise, one much closer to the US 'earned income' or 'social innovation' schools of thought (Defourny and Nyssens 2010) than Scotland and many other parts of the UK are comfortable with.

Community Benefits in Procurement

In Scotland much is made of the potential for social enterprise to benefit from the introduction of Community Benefit Clauses (CBCs) into local authority planning decisions. CBCs are contractual requirements that in addition to the core purpose of the contract deliver a wider social benefit, such as in relation to targeted training and employment outcomes (Macfarlane and Cook 2008). The highest profile example is Glasgow City Council's widespread adoption of CBCs into its 2014 Commonwealth Games infrastructure procurement process. This has resulted in a contract awarded to Glasgow based Unity Enterprise[3] to supply catering for those working on several of the Games' construction sites, providing a number of people with mental health difficulties a job, in what is one of Glasgow's most deprived communities (Naysmith 2010).

The Infrastructure for Support

[3] www.unity-enterprise.com

Scotland has a complex and highly developed array of support organisations to encourage the growth of social enterprise in various ways. Focusing only on support for social enterprises, and excluding the rest of the Third Sector reveals: Social Enterprise Scotland[4] (formerly the Scottish SE Coalition) which brings together social enterprises and their supporters to lobby on their behalf; SENSCOT[5], the Social Entrepreneurs Network for Scotland, which maintains a number of geographic and thematic networks to help social entrepreneurs become more effective; Social Firms Scotland, which looks after the interests of those organisations who have an explicit aim to support people with disabilities or other problems who are distanced from the labour market; the Development Trust Association for Scotland[6] (DTAS) which supports those organisations that are owned and managed by local communities with an explicit aim to support community regeneration; the Community Business Network for Scotland[7] (CBNS) which promotes and encourages community-owned enterprise, supporting communities to become more self-reliant and sustainable; CEiS[8], which was established in the mid 1980s to provide training support and finance for community businesses; and Co-operative Development Scotland[9], a government-funded body that promotes and facilitates the development of Scottish co-operative enterprises, which are estimated to employ some 28,600 and produce just over £4billion in turnover (Scottish Enterprise 2012). In addition, the Social Enterprise Academy[10] provides learning and development for social enterprise leaders across Scotland and has started to expand into the rest of the UK and internationally, while a small Scottish arm of the School for

[4] www.socialenterprisescotland.org.uk
[5] www.senscot.net
[6] www.dtascot.org.uk
[7] www.cbs-network.org.uk
[8] ceis.org.uk
[9] www.scottish-enterprise.com/microsites/co-operative-development-scotland.aspx
[10] www.theacademy-ssea.org/

Social Entrepreneurs[11] operates in several (former coalfield) areas in Scotland, providing skills development training for those interested in setting up a social enterprise. There are also national bodies for credit unions (the Scottish League of Credit Unions[12]) and housing associations (the Scottish Federation of Housing Associations[13]).

Support for other parts of the Third Sector is equally as complicated (if not more so) and over the last few years the Scottish Government has, in an attempt to rationalise support structures, encouraged the development of a single 'Third Sector Interface' in every local authority area in Scotland (32 in total). These have been tasked with supporting the development of Third Sector activity, including social enterprise, in each area, and ensuring that the Sector has a voice in community planning discussions. This has, inevitably, caused tensions in some places, such as between various Voluntary Sector bodies and those representing social enterprise. However, the Scottish Government has encouraged co-operation between SENSCOT, Social Enterprise Scotland and Social Firms Scotland, through a 'Supporting Social Enterprise' partnership strategy.

Community Finance in Scotland

Community finance, as both formal and informal initiatives, has a long and rich history in the UK, and particularly in Scotland. Formal institutions have taken many forms: savings banks for the poor, for example, the Tottenham Benefit Bank in London and Ruthwell Savings Bank in Scotland, established in 1804 and 1810 respectively (Vittas 1995); the Rochdale Pioneers, as mentioned earlier, an early consumer co-operative, established in 1844 (McKillop and Wilson 2011); and credit co-operatives in Ireland,

[11] www.the-sse.org/schools/6/scotland
[12] www.scottishcu.org/
[13] www.sfha.co.uk/

first introduced in 1894 (Guinnane 1994). While informal finance groups have had a continued presence in society, such as in the form of a 'menodge[14]' (Craig 2010), a version of a Rotating Savings and Credit Association (ROSCA) (Rutherford 2000), which has operated on a small scale in poor communities in Scotland over the past century or so; and savings clubs, for example, a Christmas Club either run by a Bank or a community itself that offers a 'safe haven' to store any excess money outside of the household usually only to be accessed on an agreed upon date e.g. 1st December (Thaler and Shefrin 1981) Evolving from these initiatives are modern day community banking institutions: credit unions and Community Development Finance Initiatives (CDFIs). Contemporary credit unions are a legacy of the German Schulze-Delitzsch and Raiffeisen credit co-operatives[15], and are defined as self-help co-operative financial organisations geared to attaining the economic and social goals of members and local communities (McKillop and Wilson 2011). Similar to their predecessors, they generally work to ameliorate the conditions of those worst-off in society.

Glasgow has more credit unions and more credit union members than any other city in the United Kingdom: 34 in total with over 120,000 members and a financial asset portfolio of over £170m (Credit Unions in Glasgow 2012). Distinctively, credit unions are governed by their members who share an explicitly demanded form of 'common bond', typically around geographical location (Mayo and Mullineux 2001; Bank of England 2000). Arguably, this common bond functions to inspire a sense of connectedness and community feeling amongst its members (Mayo and Mullineux

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[14] Usually managed by women in a local community and is entirely based on trust. Members agree to meet at regular times where a small amount is paid into a fund. When all members have contributed, a draw is made or turns taken to allow fair allocation of the fund to a member. The common pot thus allows a normally unaffordable item to be purchased.

[15] The urban Schulze-Delitzsch credit co-operative and rural Raiffeisen credit co-operative were established in 19th century Germany to meet the needs of those who had been hitherto underserved and disregarded by the traditional financial institutions of the time (see Vittas (1995), Guinnane (1994) and Seibel (2003)).

2001) which, alongside the equity contribution required to become a member, results in an ownership structure that seeks to prioritise the aims, interests and well-being of its members instead of the traditional principal motivating factor of a financial institution i.e. profit.

Although the focus of credit unions has principally been fighting financial exclusion, (Ryder 2002; McKillop and Wilson 2008) to shield themselves against future vagaries as well as to reduce the stigma that they are a ‘poor person’s bank’, which, as Jones (2008) points out, is unlikely to appeal to the poor themselves, it has been acknowledged that credit unions need to diversify their lending portfolio. Thus, to enable credit unions to expand their reach, a recent legislative change. The Legislative Reform (Industrial and Provident Societies and Credit Unions) Order (2011) relaxed the burden of proof required around the common bond to enable credit unions to serve a larger membership including community groups and social enterprises. Thus, credit unions now have the means to become a more active part of the support structure for social enterprise activity than they have to date.

While the new legislation enables credit unions to broaden the scope of their lending activities, they need not comply and can operate as before (Financial Services Authority 2012). Additionally, the fairly recent nature of this legislative change makes it difficult to evaluate its effects. There is an argument to suggest that potential erosion of the ‘mutuality and trust’ elements upon which (particularly) smaller credit unions thrive may result. However, with a stronger credit union movement than in either England or Wales, particularly in West Central Scotland where the largest credit union in the UK is located – Glasgow Credit Union[16] – Scotland, and especially the social enterprise

[16] www.glasgowcu.com/

movement in Scotland, seems well placed to seize the opportunity this new legislation represents: potential new sources of finance provided by financial organisations that operate themselves as social enterprises. This is in stark contrast to the route of using private sector intermediaries to invest in social enterprise activity, supported by the UK Government and several large banks, which is viewed with extreme scepticism in Scotland, and, indeed in many other parts of the UK (see, for example, Davison (2013) and Davison and Heap (2013)).

The disparate set of institutions operating under the banner of CDFIs, on the other hand, aim to provide affordable finance to support predominately deprived communities excluded from traditional banking institutions (GHK Consulting et al. 2010). While operating models, products and services differ across CDFIs, one of the three main tranches of lending that takes place is to civil society organisations. Of the four CDFIs currently operating in Scotland, three offer social enterprise loans[17], the first two operate nationally and the third operates mainly across lowland Scotland; Social Investment Scotland[18], CAF Venturesome[19] and DSL[20].

Defining social enterprise in Scotland

There is no *legal* definition of a social enterprise in any part of the UK. The oft cited *operational* definition, however defines a social enterprise as "a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners" (Department of Trade and Industry 2002 p. 13). This operational definition has retained significant support in Scotland, despite attempts to

[17] The fourth CDFI in Scotland is Scotcash, www.scotcash.net/, a Community Interest Company (CIC) whose principal product is personal loans.
[18] www.socialinvestmentscotland.com/
[19] www.cafonline.org/charity-finance--fundraising/banking-and-investments/loans-and-capital.aspx
[20] www.dsl-businessfinance.co.uk/content/social_enterprises/

stretch the definition beyond recognition by several actors in the private and public sectors to suit their own agendas, including UK Government Ministers in recent times (Jones 2012; Roy et al. 2013).

Indeed, broad moves by the UK Government towards a more neo-liberal, US-influenced agenda in all manner of areas of public policy, particularly in the name of austerity measures, have resulted in Scotland attempting to distance itself from such thinking. A recurring emergent theme from this paper regards how the perception of 'threat' from a much larger and powerful neighbour manifests itself in many areas of culture, politics and policy. This was certainly one of the forces behind the development by SENSCOT of the SE Code: a set of principles for social enterprise in Scotland. Their five Scottish criteria (SENSCOT 2010) are set out in Figure 1, for ease of reference shown in comparison to the nine characteristics of social enterprises developed by the EMES International Research Network (Borzaga and Defourny 2001). What is noticeable is that SENSCOT places less emphasis upon democratic governance models than the EMES 'ideal type'. Unlike many other western European nations (Nyssens 2009) there is no legal requirement in the UK to involve those people affected by the service in the governance of the social enterprise (in part, of course, due to the lack of legal definition) but, in practice, involving beneficiaries in the governance structures is not unusual. That said, and as Mayo et al. (2001) point out, there are undoubted lessons that the UK can apply from elsewhere, including, for instance, the social co-operative business model in Italy, which brings together professional workers and disadvantaged employees as well as service users in the governance of the enterprise.

Figure 1: the EMES 'idea type' vs. the SENSCOT criteria

EMES 'ideal type'

Economic and Entrepreneurial Dimensions

1.Continuous activity producing goods and/or selling services

2.Significant level of economic risk

3.Minimum amount of paid work

Social Dimensions

1.Explicit aim to benefit the community

2.Initiative launched by a group of citizens or civil society organisations

3.Limited profit distribution

Participatory Governance

1.High degree of autonomy

2.Decision-making power not based on capital ownership

3.Participatory nature, which involves various parties affected by the activity

SENSCOT Criteria

Criterion 1 – Social Enterprises have social and/or environmental objectives

As one of its defining characteristics, a social enterprise must be able to demonstrate its social mission. This will be evidenced in its constitutional documents but the production of other (externally verified) evidence is encouraged - to provide transparency of purpose and accountability to stakeholders. Tools and techniques to measure social and environmental impact are becoming more effective and user friendly.

Criterion 2 - Social Enterprises are trading businesses aspiring to financial independence

This second defining characteristic is demonstrated by an enterprise earning 50% or more of its income from trading. This will be evidenced by the accounts of the business over a reasonable period. A high level of income from the public sector is acceptable in the form of contracts - but not grants.

Criterion 2 is intended to mark the boundary between social enterprise and much of the voluntary sector. (Many Voluntary orgs trade over 50% without calling themselves social enterprises)

Criterion 3 – Social Enterprises have an 'asset lock' on both trading surplus and residual assets

Whether or not it's a charity, a social enterprise re-invests all its distributable profit for the purpose of its social mission. Where the business has shareholding investment (very few in Scotland) no more than 35% of profit may be distributed in dividends. In addition, the constitutional documents of a social enterprise must contain a clause to ensure that, on dissolution of the business, all residual assets go to social/environmental purposes.

Criterion 3 is intended to mark the boundary between social enterprise and the private sector.

Criterion 4 – A Social Enterprise cannot be the subsidiary of a public sector body

Whilst a social enterprise can be the trading subsidiary of a charity, it must be constitutionally independent from the governance of any public body. Additional evidence of this would be required from Public Sector externalisations.

Criterion 4 is intended to mark the boundary between social enterprise and the public sector.

Criterion 5 – Social Enterprises are driven by values – both in their mission and business practices

Social enterprises operate in competitive - often fierce – markets but there is an expectation that their dealings will be ethical and that they will offer their people satisfactory wages, terms and conditions. Enterprises of a reasonable size are expected to have clear human relations and environmental policies. Transparency would be achieved through the voluntary adoption in the sector of a maximum ratio between highest and lowest paid – of say 1:5 – investing a culture of equality.

Broadly speaking, the social enterprise movement in Scotland is largely influenced by the late Scots based author and social activist John Pearce whose ideas – particularly his Three Systems of the Economy conceptual diagram – remain highly influential, not only in Scotland, but internationally (See, for instance, Ridley-Duff and Bull (2011, p. 15); Lewis (2006, p. 4)).

As briefly touched upon earlier, the sector in Scotland, in line with certain other parts of the UK, has been unashamedly driven by the need to keep private investment and dividends out of the social enterprise funding landscape, in clear reaction to the emergence of ideas from London such as Big Society Capital[21] and Social Impact Bonds[22] (McHugh et al 2013). SENSCOT, for instance, draws a clear line between making 'soft' loans available for social investment on the one hand, and private and external funders making money from the delivery of social or community enterprise on the other. In rejection of the UK Government's Big Society Capital model, the concept of a Scottish Community Bank is currently being explored by the sector in Scotland, an iteration of an earlier concept – the Scottish Community Enterprise Investment Fund (SCEIF) – which, in 1990, was launched and raised £0.5m through a share issue and ran and gave loans for 10 years to community businesses and enterprises before passing itself on to the (then) newly formed Charity Bank.

A similar example of Scots choosing to tread an alternative path concerns the Social Enterprise Mark, introduced to the UK over the last couple of years. Rather than the Government (as in the case with Finland) administering the Mark, this was organised through an independent Community Interest Company based in Exeter, England. (Ridley-Duff and Southcombe 2012). Financial pressures have meant that the qualifying criteria for the Mark was relaxed, perhaps wider than Scottish social enterprises, and certainly organisations such as SENSCOT, were comfortable with (Hampson, 2010a). Consequently, Scottish intermediary institutions withdrew their support for the Mark, with the initial intention to form a distinct Scottish Mark that reflected the Scottish criteria. Interestingly, one of Edinburgh Council's ALEOs, mentioned earlier, applied for and was granted – the Social Enterprise Mark. It would have failed Criterion 4 of SENSCOT's Scottish Criteria.

[21] Big Society Capital, billed as the UK's social investment bank, seeks to harness markets to access sources of capital which will be used to solve societal and social problems (Cohen, 2012).

[22] Social Impact Bonds (SIBs) involve a multi-stakeholder arrangement between the public sector, the Government and investors where investors are offered returns (paid back by the Government) if their investment makes improvements (to a pre-agreed level) to the social outcomes of a service provider (Social Finance, 2012).

Examples of Scottish cynicism of a world in which public sector municipalists and private sector opportunists can be seen to 'masquerade' as social enterprises (Jones 2012), particularly in England, are not hard to find. Indeed, Scots' mistrust of initiatives emanating from the UK Government might partly explain why the Community Interest Company structure, introduced into law across the whole of the UK in 2004, has been slow to take off in Scotland: Scotland has around 5.5% of all companies registered in Great Britain (Companies House, 2011) but only 4% of the total number of CICs (CIC Regulator 2011, 2012). This is less than a third of the level of CICs in the North West of England (14%) around half the level in North East England (7%) and only just ahead of Wales (3%).

The size and impact of social enterprise in Scotland

Teasdale et al. (2013) vividly describe how measuring the number of social enterprises in the UK has become a highly politicised minefield, with various Government publications suggesting that the numbers of social enterprises across the whole of the UK has somehow increased from 5,300 to 62,000 over a five-year period from 2003 to 2008. Scotland's population, according to the latest census held in 2011[23] was 5,295,400 or around 8.4% of the population of the UK, and so, if following the rest of the UK's pattern social enterprises would have 'grown' from around 480 to 5,600 in the same period. Teasdale et al. attribute this growth to political decisions to reinterpret key elements of the social enterprise (operational) definition, and a tendency to include new organisational typologies within each sampling frame, thus applying suspect survey methodologies. The operational definition mentioned here needs to be understood as being entirely separate from, say, the legal definition of a Community Interest Company,

[23] www.www.scotlandscensus.gov.uk/en/

which is but one of many possible legal forms of social enterprise in the UK. This distinction is of critical importance to adequately understanding the complexity involved in identifying the population of (legally defined and *de facto*) social enterprises in the UK, and correctly interpreting the apparently diverging results of the social enterprise surveys that have been so far undertaken. Since Teasdale et al's article was published, the UK Government used the occasion of their presidency of the G8 group of countries to produce a factsheet on social investment and social enterprise (HM Government 2013) which boasts of "180,000 social enterprise SME employers, representing 15% of all SME employers" and "including sole traders, the total number of SME social enterprises is 688,000" which represents a whole new stage of politically motivated manipulation of the operational definition of social enterprise in the UK.

Specific surveys were attempted for Scotland in 1997 (McGregor et al. 1997) and in 2003 (McGregor et al. 2003) with the latter estimating around 3,700 social economy organisations employing approximately 70,000-90,000 Full Time Equivalent employees (FTEs) in Scotland. SENSCOT currently estimate that there are around 3,000 social enterprises, with a further 3,000 people and organisations working or trading with them. A survey published in 2013 found 509 enterprises in the city of Glasgow, representing some 13,000 employees, £2.2Bn in assets and £700m in turnover (GSEN and Social Value Lab 2013) albeit much of these figures can be attested to Glasgow Housing Association – one of Europe's largest social landlords – alone.

It could be argued that a lack of comparable data handicaps the Social Enterprise support organisations in their dialogues with the Scottish Government. It certainly hinders the Scottish Government in establishing the potential impact of interventions to support socio-economic and well-being through social-enterprise-led activity, hence the call for a clear definition and an agreement on ways for social enterprises to explain their impact: indeed, it is argued that a key tool for the Third Sector to become embedded within the policy landscape is statistical evidence (Kendall 2000).

Evaluations of funding programmes such as the Scottish Executive's £18m FutureBuilders Scotland Fund (Scottish Government 2008b) and the funding associated with the Enterprising Third Sector Action Plan 2008-2011 provide basic details of numbers of social enterprises supported by these policy initiatives. But these evaluations provide little information or research conclusions to indicate the wider contribution or impact on local areas or the national Scottish economy, or indeed on community or individual well-being, that social enterprise-led activities can bring. This is a clear area of priority for future research in the field.

Conclusions

As stated in the introduction, the UK is seen as having the most developed institutional support structure for social enterprise in the world (Nicholls 2010; Teasdale 2011). Although a common company law framework extends across the whole of the UK, the policy landscapes are decidedly different. Although the historical evolution of social enterprises activity and policy in Scotland tends to resemble that of other industrialized western countries, especially those that offer strong institutional support, Historical Institutionalism is a useful approach to explain nuances in social enterprise movement trajectories in different socio-economic and political contexts. In the specific case of Scotland, we have shown an embedded culture of humanist values, translated into political support for parties with social democratic agendas, a high developed and complex array of support institutions developed over many years, and a significant and explicit commitment of support from Government and individual politicians which has not shown signs of waning (indeed has shown encouraging signs of growing) despite the poor financial outlook. However, all is not positive. Scotland is still very dependent upon the public sector and thus suffers disproportionately, in comparison to many other parts of the UK, when the state contracts. There is no guarantee that the Third Sector in Scotland is necessarily better placed than England to fill the gaps in provision that withdrawal by the State in areas of welfare will inevitably create, and indeed have already created. The relative absence of a market for public services, at least in comparison to England, may be an unfavourable condition for social enterprise growth in Scotland. It remains to be seen whether the widespread use of measures such as Community Benefit Clauses, yet to be embraced in England, is sufficient to offset a relative lack of opportunity for social enterprises to compete for local public service contracts in areas such as Glasgow. It is in Scotland's inner cities where a thriving Third Sector is arguably needed most, but there is still a perception (driven by a fair amount of evidence) to suggest that Third Sector activity, including starting up a social enterprise, is largely a middle class pursuit (Davies 2006).

While the Third Sector is able to influence the policy debate to a certain extent in Scotland, and certainly has more power and influence than prior to devolution (Alcock 2012) the ability of Scottish based Third Sector Organisations to influence the dialogue at a UK level is minimal, given that most areas of policy relevant to them are devolved.

Furthermore, Scotland does not have the advantages of scale, particularly in markets, compared to England and other more populous nations. This is compounded by the 'command and control' nature of some local authorities in Scotland which manifests in a peculiar schizophrenic attitude towards the Third Sector: viewing it as a 'good thing' on the one hand, but which, on the other, keeps social enterprise activity (in particular) away from public sector contracts because of a reticence to open up the provision of certain services to community-based providers.

In addition, Scotland has a small population and those involved in social enterprise are a relatively small, fairly tightly knit community. Indeed, Scotland is often characterised as a village. While village life is often idealised, the reality is that a village (at the risk of stretching the analogy too far) cannot possibly possess all of the characteristics for any and all types of business to flourish.

So rather than claiming that the conditions in Scotland are the 'most supportive in the world for social enterprise' perhaps it would be more productive to ask whether the conditions are the most supportive they can be for Scotland. There are a number of considerable challenges facing public services and no end of 'rallying cries' for the Third Sector to step forward. Whether the Third Sector in Scotland is 'enterprising' enough to rise to meet the evident and obstinate problems facing society in a sustainable and innovative fashion, in a future likely to be marked by much less public money to address these grand challenges, remains to be seen.

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